

TOPS FUND AND TOBACCO MASTER SETTLEMENT AGREEMENT

What is the Tobacco Master Settlement Agreement (MSA)?

The Tobacco Master Settlement Agreement (MSA), which was originally entered into among 46 states in 1998, provided for four major tobacco manufacturers to pay the state annually by April 15th its allotted share (2.25%) of the total annual settlement proceeds as a regular payment in perpetuity.

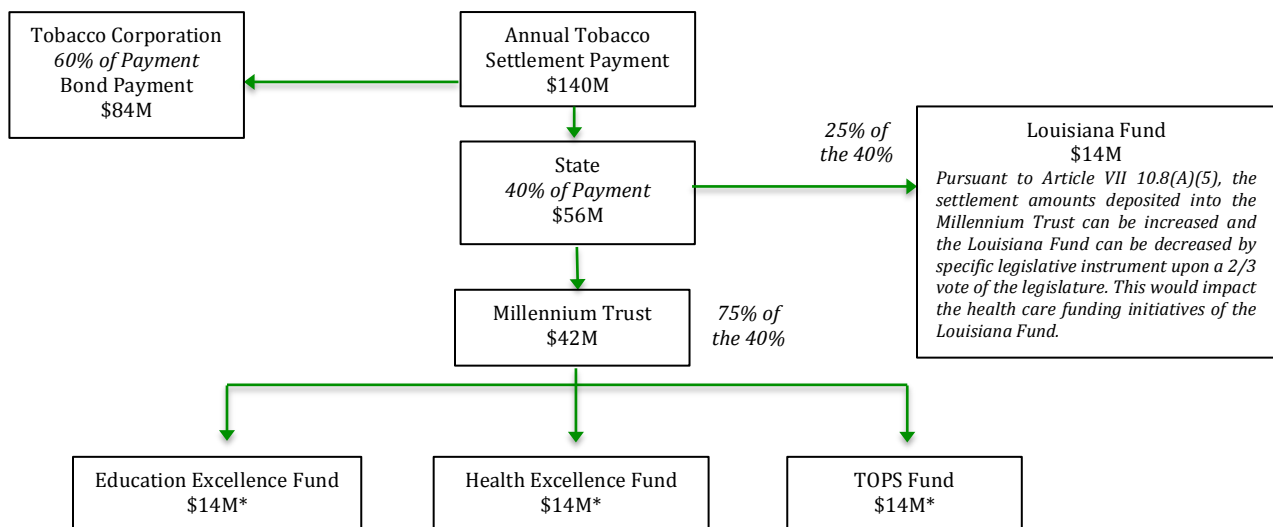
What is the Millennium Trust?

In 1999 the legislature and electorate adopted a constitutional amendment that created the Millennium Trust and the Louisiana Fund. The Trust is comprised of three dedicated funds: the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund. These funds equally share in the trust fund earnings and appropriations are annually limited not to exceed the annual earnings from interest, dividends, and capital gains on the investment of the Millennium Trust in excess of an inflation factor, while the TOPS Fund can also annually expend the MSA payment. The Health Excellence Fund provides funding for children's health care, school-based health clinics and early childhood prevention programs. The Education Excellence Fund provides funding to prepare at-risk children for school and assist children to achieve scores on tests required to advance. The TOPS Fund provides funding for TOPS from the annual settlement proceeds and annual earnings from interest, dividends and capital gains on the investment of the Millennium Trust. The 1999 adopted constitutional amendment provided for the Trust to receive a phased-in amount of the settlement payment ranging from 45% in FY 01 up to 75% in FY 03, which is the allocation of state's portion today. The Louisiana Fund receives 25% of the state's portion. The Louisiana Fund provides funding for children's health initiatives, direct health care services for tobacco related illnesses, initiatives to diminish tobacco related injury, initiatives to ensure optimal development of Louisiana's children, enforcement activities of the Attorney General, etc.

What is the Tobacco Corporation?

In 2001 the state created the Tobacco Settlement Financing Corporation (Act 1145 of 2001) as a conduit to securitize 60% of the annual revenue payment stream, with the remaining 40% of the annual revenue payment stream flowing to the state. The reason for securitizing a portion of the revenue stream was to hedge the prospect of tobacco companies going bankrupt. The original securitization generated approximately \$1.203B, which was deposited into the Millennium Trust. The remaining 40% flowing to the state is split between the Louisiana Fund (25% of state's portion) and the Millennium Trust (75% of state's portion). Below is a flow chart that illustrates the original flow of settlement proceeds prior to the adoption of a 2011 constitutional amendment.

Prior To Adopted 2011 Constitutional Amendment Tobacco Settlement Distribution Flow Chart

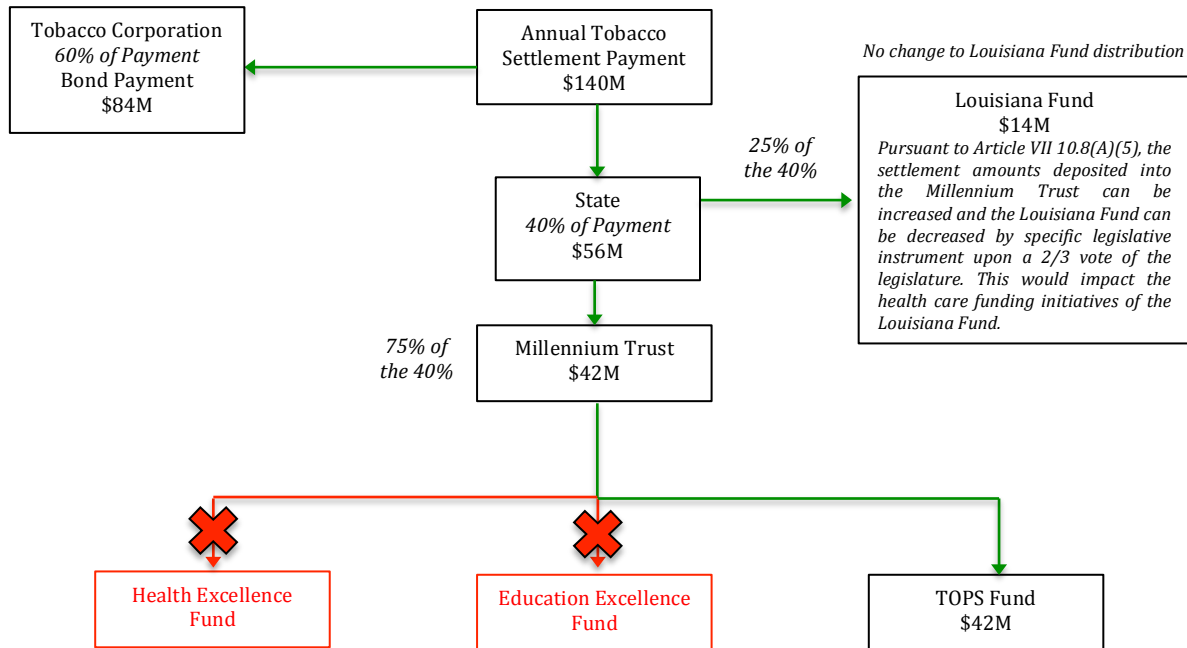


**The \$14M deposited into the three dedicated funds grows the corpus, or the Trust. The amount available for appropriation annually from these three funds is not to exceed the annual earnings from interest, dividends and capital gains on investment of the Trust in excess of an inflation factor.*

What is the current annual Tobacco Settlement Distribution?

An adopted 2011 constitutional amendment provided that once the balance in the Millennium Trust reaches \$1.38B, 75% of the tobacco settlement payment is to be entirely deposited into the TOPS Fund as opposed to growing the Health Excellence Fund and the Education Excellence Fund. As was originally provided and continued by the 2011 adopted constitutional amendment, earnings of the Trust are still split three ways among the Health Excellence Fund, the Education Excellence Fund, and the TOPS Fund. However, those earnings are less than prior fiscal years due to the corpus of the Health Excellence Fund and the Education Excellence Fund only receiving the inflation factor and none of the MSA payments. See flow chart below for the current distribution flow of MSA payments.

Current Typical Annual Tobacco Settlement Distribution Flow Chart



Will the current outstanding bonds be paid in full by FY 2024?

In July 2013, the Tobacco Corporation refunded (refinanced) the original 2001 debt. According to the 2013 Official Statement (OS), the refunding bonds could be paid in full by 2023. The bond payment structure through the use of a supplemental account provides for proceeds (60% of the tobacco settlement payment) to be applied toward debt service even when the minimum debt service payment requirement could be some amount less. Based on the debt service schedule provided in the official statement of the 2013 refunding, the anticipated minimum debt service payment for FY18 is estimated to be approximately \$57.4M.

IF the MSA payment is consistently \$140M annually and ***IF*** the Tobacco Corporation actually receives \$84M (60% of \$140M MSA payment) that can be applied to the debt, ***THEN*** the Tobacco Corporation would have paid more debt service for that year. This would result in the debt being paid in full sooner than 2035, which is the payoff date reflected in the debt service schedule. Once the debt is paid in full, the 60% portion that is currently flowing to the Tobacco Corporation for debt payments would be made available to the state, which would result in the Louisiana Fund receiving \$35M (an additional \$21M) and the TOPS Fund receiving \$105M (an additional \$63M). This example is contingent on the state receiving \$140M per year in MSA payments.

NOTE: Based on the original estimates provided in the 2013 refunding Official Statement, the early redemption estimates projected the total payoff to be in 2023. Based upon current consumption estimates, this date is currently projected to be 2024. Due to the MSA payment being tied to consumption, if cigarette consumption decreases, the payoff date will likely occur beyond 2024.